

SBC - Arkansas Study

**Presubscribed Interexchange Carrier (PIC) Change Charge
Nonrecurring Cost Study**

2005-2008

August 2005



SBC - Arkansas
Presubscribed Interexchange Carrier (PIC/LPIC) Change Charge
Service Order
Nonrecurring Cost Study
2005-2008

Overview and Methodology

Purpose

The purpose of this cost study is to provide updated costs for PIC Change orders. For reference, an acronym glossary is included as a separate tab within this cost study.

Service Description

Presubscription is a procedure whereby an end user may select and designate to the Telephone Company an Interexchange Carrier (IC) to access, without dialing an access code, for interLATA calls. This IC is referred to as the end user's primary IC. A charge associated with interLATA is a PIC.

Rate Element Descriptions

Combination Manual PIC/LPIC Charge, Cost per Change – Initial & Additional
Combination Mechanized PIC/LPIC Charge, Cost per Change – Initial & Additional

Note: The initial and additional rates are weighted together based on the percent of initial and additional PIC/LPIC changes. The initial and additional volumes are based on data from July 2004 through July 2005.

Nonrecurring Cost Methodology

Activity-Based Costing is a widely used method of identifying costs. The structure of an ABC study is based on the fact that activities performed by the company consume resources, and these resources have a specifically identifiable cost. Activities, then, are used to provide services. This gives a logical, easy-to-follow flow through the costing procedure.

Activity-Based Costing uses a number of specific terms, such as *resource*, *activity*, *cost object*, and *drivers* which have simple, yet special meanings.

- A *resource* can be a piece of equipment, a labor rate, or a vendor contracted expense.
- An *activity* is an action that consumes resources. The cost of the activity is calculated based on the cost of the resources that the activity consumes, and the resource driver, or the quantity of resources the activity consumes.
- A *cost object* is a product (i.e., PIC Change).
- *Drivers* are specific units that represent quantities of activities and resources. For example, time in minutes, or orders per line may be drivers. Resource drivers are the quantity of resources consumed by an activity. Activity drivers are the number of activities necessary to provide the service.

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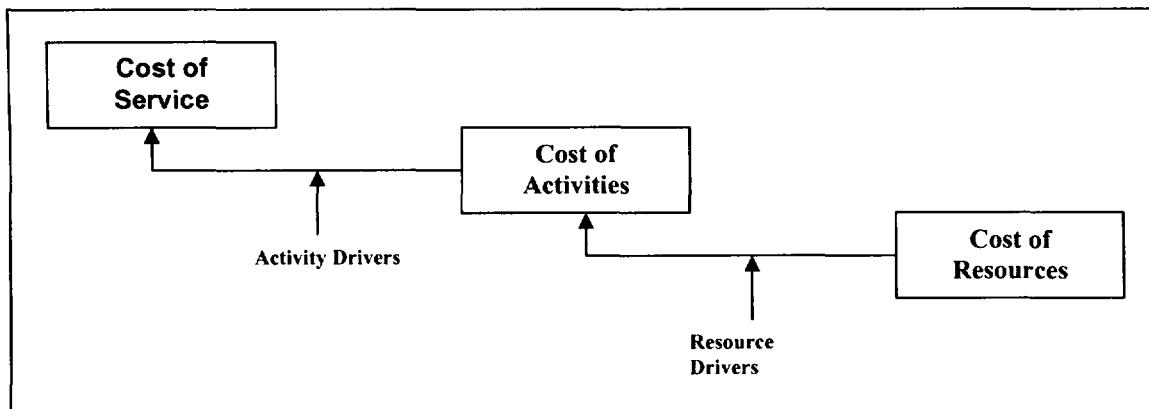
Overview and Methodology

The Basics of Activity-Based Costing are:

- Cost objects (i.e., services) are provided by activities.
- Activities consume resources.
- Consumption of resources drives costs.

Figure 1 illustrates the flow of Activity-Based Costing.

Figure 1



The rate structure in SBC - Southwest consists of a PIC Change charge for the “initial” line on an order and a separate PIC change charge for each “additional” line on that same order. In order to accurately account for this, times were gathered and separate costs were calculated for PIC Changes on both “Initial” and “Additional” lines. More specifically, the SMEs were asked to provide times and activities for each the “Initial” line with a PIC change on an order and each “Additional” line with a PIC change on the same order. The total time to provide a PIC Change on an “Additional” line on the same service order is shorter than the total time to provide a PIC Change on the “Initial” line on that service order because of efficiencies achieved on a multiple line order. For example, if there are 10 lines on the same service order, the Service Representative may have to spend time pulling up the customer’s account. This time would be allocated to the “Initial” PIC Change cost because this would have to be done even on an order with 1 line. However, there is no extra time spent doing this step because of the “Additional” lines, thus no time is allocated to changing the PIC on any “Additional” lines. This methodology ensures that the efficiencies achieved on a multiple line order are recognized in the costs.

Labor Rates

The labor rate represents the cost to SBC of a single hour of labor. The labor rate is inflated (based on the Consumer Price Index) to the midpoint of the study period to make the labor cost representative of the entire study period. A more detailed discussion of labor rates and inflation factors is found later in this methodology.

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Line and Change Quantity Efficiency

End user may have more than one access line and ask to have their PIC changed on multiple lines on the same request (or order). In addition, on the same request, the same end user may also request LPIC changes on the same lines. There are efficiencies associated with performing PIC changes on multiple lines and performing a LPIC change at the same time as a PIC change. This efficiency is included in the cost results.

The SMEs provided time estimates that represent the total activity time required to make all changes on all lines on an average size request. In other words, the SMEs, based on their experience processing requests, estimated an average number of changes required on a request and provided the total time to process all changes. The Bill of Costs tab adjusts the per request manual costs to per change by multiplying the resulting business channel costs by orders per change (or the inverse of changes per order), thereby accounting for any line and change quantity efficiencies resulting from multiple lines or changes per line on the same request.

Inflation Factors

Inflation Factors are utilized to provide one cost over a multi-year period. The inflation factors are developed by using the forecast of the Consumer Price Index (CPI). The CPI represents changes in prices of all goods and services purchased for consumption by urban households. User fees (such as water and sewer service) and sales and excise taxes paid by the consumer are also included. Income taxes and investment items (like stocks, bonds, and life insurance) are not included.

Labor Rate Development Methodology

Labor rates identify the cost to the firm of consuming a particular resource—an hour of labor. Labor rates begin with a basic hourly wage or salary, and then include costs directly caused by labor that are not captured in the basic wage. These other direct labor costs include:

- break time and/or tour length costs,
- paid absence costs,
- special payments such as team awards and recognition,
- payroll taxes, pension costs, benefit costs,
- support assets, including capital costs associated with support assets
- Other direct costs such as travel and training, and clerical support and supervision.

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Labor rates are developed at the proper level of detail to provide accurate costs for specific activities. First, SBC looks at specific groups of function codes (which designate a specific job function) or activity codes (which designate a specific job activity). These function/activity codes are part of SBC's functional accounting system used to report expenses company-wide. For example, 21XX is the group of all wages and expenses charged to function codes or activity codes that begin with "21", which in this example represents Operator Services functions and activities.

Within the specific group, SBC develops labor rates by Market Zone (for management employees) or Wage Category (for non-management employees). The Market Zone and Wage Category are specific job classifications that determine how much the company pays for a particular job.

The Labor rates in this study begin with an average wage per hour from payroll records. SBC derives relationships of expenses to wages, or expenses to hours worked, to develop labor factors or loadings that it then applies to basic wages to produce total hourly labor cost. All base labor rates in this study represent calendar year 2003. If SBC did not have current labor base rates for a particular state or job title, the most recent labor rate available was adjusted by bringing the basic wage portion of the labor rate current and updating the benefit factor using the most recent data available.

For more information, see separate Labor Rate Development documentation.

Cost Study Assumptions and Parameters

- LRIC Methodology
- Slamming costs are included in the PIC change charge
- Study period is 2005 – 2008
- Labor Rates are base year 2003 adjusted to 2006, which is the midpoint of the planning period (2005 – 2008)

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| Results | | | | | | |
|---|--------------------------|---------------|--------|---------------------|-------|---|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) |
| Line | Cost Element | Bill of Costs | Input | $(E) = (C) * (1+D)$ | Input | $((E \text{ Initial} \times F \text{ Initial}) + (E \text{ Add} \times F \text{ Add}))$ |
| Manual PIC / LPIC Combination, Cost per Change | | | | | | |
| 1 | Initial Line On Order | \$3.55 | 32.17% | \$4.70 | 78% | \$4.26 |
| 2 | Additional Line On Order | \$2.04 | 32.17% | \$2.69 | 22% | |
| Mechanized PIC / LPIC Combination, Cost per Change | | | | | | |
| 3 | Initial Line On Order | \$1.49 | 32.17% | \$1.97 | 78% | \$1.97 |
| 4 | Additional Line On Order | \$1.49 | 32.17% | \$1.97 | 22% | |

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| Bill of Costs | | | | | | | | | |
|---------------|--|----------------------------|-------------------------------|-------------------------------------|-----------------------|---|-----------------------------------|---------------------------------------|--|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | |
| Ln | Cost Element / Activities | Initial Unit Activity Cost | Additional Unit Activity Cost | Activity Driver (Orders per Change) | Other Activity Driver | Source / Drivers | Other Activity Driver Description | Initial Activity Cost (H = C + E + F) | Additional Activity Cost (I = D * E * F) |
| | Manual PIC / LPIC Combination, Cost per Change | | | | | | | | |
| 1 | Process PIC Change for "Consumer Customer Care" customer | \$3.32 | \$0.94 | 0.51 | 89.4% | % manual orders worked by Consumer Customer Care center | \$1.514 | \$0.429 | |
| 2 | Process PIC Change for "Global Markets" customer | \$11.66 | \$1.15 | 0.51 | 1.1% | % manual orders worked by Global Markets center | \$0.665 | \$0.006 | |
| 3 | Process PIC Change for "Value" (Medium) customer | \$4.85 | \$0.87 | 0.52 | 1.8% | % manual orders worked by Value Medium center | \$0.046 | \$0.008 | |
| 4 | Process PIC Change for "Value" (Small) customer | \$9.36 | \$4.41 | 0.52 | 5.2% | % manual orders worked by Value Small center | \$0.120 | \$0.120 | |
| 5 | Process PIC Change for "GEM" Non-Centrex customer | \$32.94 | \$8.61 | 0.51 | 0.8% | % manual orders (Non-Contrex) worked by GEM center | \$0.134 | \$0.035 | |
| 6 | Process PIC Change for "Signature Accounts" Non-Centrex customer | \$28.27 | \$7.68 | 0.52 | 0.9% | % manual orders (Non-Contrex) worked by Signature | \$0.134 | \$0.036 | |
| 7 | Provide Customer Account Record Exchange (CARE) support - All PIC and/or LPIC Changes | \$48.917 | \$48.917 | NA | 0.00000301 | 1/Total PIC/LPIC Transactions | \$0.147 | \$0.147 | |
| 8 | Provide Slammer Administration support - All PIC and/or LPIC Changes | \$133.614 | \$133.614 | NA | 0.00000301 | 1/Total PIC/LPIC Transactions | \$0.402 | \$0.402 | |
| 9 | Provide Service Order Computer Cost, per PIC Change | \$0.98 | \$0.98 | 0.37 | | Weighted Average PIC/LPIC Changes per Service Order | \$0.360 | \$0.360 | |
| 10 | Provide PIC IT Cost, per PIC Change | \$0.46 | \$0.46 | NA | | NA | \$0.460 | \$0.460 | |
| 11 | Provide PIC Implementation Cost, per PIC Change | \$0.03 | \$0.03 | NA | | NA | \$0.034 | \$0.034 | |
| 12 | Total Cost > SUM (LN 1.....11) | | | | | | \$3.55 | \$2.04 | |
| | Mechanized PIC / LPIC Combination, Cost per Change | | | | | | | | |
| 13 | Provide Customer Account Record Exchange (CARE) support - All PIC and/or LPIC Changes | \$48.917 | \$48.917 | NA | 0.00000301 | 1/Total PIC/LPIC Transactions | \$0.147 | \$0.147 | |
| 14 | Provide Customer Account Record Exchange (CARE) support - Mechanized PIC and/or LPIC Changes | \$6.909 | \$6.909 | NA | 0.00001259 | 1/Total Mechanized PIC/LPIC Transactions | \$0.087 | \$0.087 | |
| 15 | Provide Slammer Administration support - All PIC and/or LPIC Changes | \$133.614 | \$133.614 | NA | 0.00000301 | 1/Total PIC/LPIC Transactions | \$0.402 | \$0.402 | |
| 16 | Provide Service Order Computer Cost, per PIC Change | \$0.98 | \$0.98 | 0.37 | | Weighted Average PIC/LPIC Changes per Service Order | \$0.360 | \$0.360 | |
| 17 | Provide PIC IT Cost, per PIC Change | \$0.46 | \$0.46 | NA | | NA | \$0.460 | \$0.460 | |
| 18 | Provide PIC Implementation Cost, per PIC Change | \$0.03 | \$0.03 | NA | | NA | \$0.034 | \$0.034 | |
| 19 | Total Cost > SUM (LN 13.....18) | | | | | | | | |

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Bill of Activity Costs

| Ln | Activities / Resources | Workgroup | Job Title | Unit Resource Cost (\$/hr) | Source: BORC | Resource Driven Minutes (Additional) | | | Initial Resource Cost (Ln=E*G+F+H) | Additional Resource Cost (Ln=E*G*H) |
|---|---|------------------|----------------------|-----------------------------------|---------------------|---|----------------------|--|---|--|
| | | | | | | Minutes (Initial) | Source: Input | Parent Occurrence Source: Input | | |
| Process PIC Change for "Consumer Customer Care" customer | | | | | | | | | | |
| 1 | Receive request from customer via the IVR. Rep greets the customer, obtains telephone number and determines customer request is for a change in PIC/LPIC | Consumer | Service Rep | \$56.22 | | 0.50 | 0.00 | 100.00% | \$0.47 | \$0.00 |
| 2 | If customer alleges SLAM, rep transfer to SCRT and drop off call. | Consumer | Service Rep | \$56.22 | | 0.75 | 0.00 | 5.00% | \$0.04 | \$0.00 |
| 3 | Service rep accesses account in Dashboard | Consumer | Service Rep | \$56.22 | | 0.50 | 0.00 | 100.00% | \$0.47 | \$0.00 |
| 4 | Service rep increases Enhanced EASE to make changes to PIC/LPIC | Consumer | Service Rep | \$56.22 | | 0.50 | 0.50 | 100.00% | \$0.47 | \$0.47 |
| 5 | Service rep records entire order with customer | Consumer | Service Rep | \$56.22 | | 2.00 | 0.50 | 100.00% | \$1.87 | \$0.47 |
| 6 | SORD will verify against Caliburn for a match against the TPU record located number, telephone number and order number. If correct, the order will distribute in SORD | Consumer | Service Rep | NA | | NA | NA | NA | \$0.00 | \$0.00 |
| 7 | Unit Activity Cost > SUM (LN 1....6) | | | | | | | | \$1.32 | \$0.94 |
| Process PIC Change for "Global Markets" customer | | | | | | | | | | |
| 8 | Customer calls in to request PIC/LPIC change or faxes or emails request to carrier. Customer records are reviewed. | Global Change | Service Rep | \$57.55 | | 1.15 | 0.00 | 100.00% | \$1.10 | \$0.00 |
| 9 | Customer requested to fax or email request. | Global Change | Service Rep | \$57.55 | | 1.15 | 0.00 | 100.00% | \$1.10 | \$0.00 |
| 10 | Fax/email request. Copies are pulled and fax cover sheet is prepared that will be returned to the customer with order info. | Global Change | Senior Records Clerk | \$49.82 | | 2.00 | 0.00 | 100.00% | \$0.66 | \$0.00 |
| 11 | Clerk logs in fax/email for tracking. | Global Change | Senior Records Clerk | \$49.82 | | 1.00 | 0.00 | 100.00% | \$0.83 | \$0.00 |
| 12 | Clerk distributes request to service rep. | Global Change | Senior Records Clerk | \$49.82 | | 1.00 | 0.00 | 100.00% | \$0.83 | \$0.00 |
| 13 | Service rep accesses BEASE/SORD to place order using the appropriate screen for PIC and LPI. | Global Change | Service Rep | \$57.55 | | 1.20 | 1.20 | 100.00% | \$1.15 | \$1.15 |
| 14 | Service rep ends order and fills out the cover sheet to be sent to customer to verify completion of order. Confirmation of due date, order numbers. | Global Change | Service Rep | \$57.55 | | 2.00 | 0.00 | 100.00% | \$1.92 | \$0.00 |
| 15 | Cover sheet is faxed back to customer and filed and/or email confirmation sent to customer. | Global Change | Service Rep | \$57.55 | | 3.00 | 0.00 | 100.00% | \$2.88 | \$0.00 |
| 16 | Access SORD and bring up order and review. | Global Change | Service Rep | \$57.55 | | 1.00 | 0.00 | 5.00% | \$0.05 | \$0.00 |
| 17 | Correct Error and resubmit order. | Global Change | Service Rep | \$57.55 | | 3.00 | 0.00 | 5.00% | \$0.14 | \$0.00 |
| 18 | Unit Activity Cost > SUM (LN 8....17) | | | | | | | | \$1.66 | \$1.15 |

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| Bill of Activity Costs | | | | | | |
|--|---|----------------------|-------------|---------|------|--------|
| <i>Process PIC Change for "Value" (Medium) customer.</i> | | | | | | |
| 19 | Answer call and acknowledge customer request! | Value (Medium) | Service Rep | \$52.19 | 0.50 | 0.00 |
| 20 | If cost has been slanned service rep transfer to dept that handles slams | Value (Medium) | Service Rep | \$52.19 | 1.50 | 0.00 |
| 21 | Clarify request. PIC/LPIC or both. Negotiate telephone numbers where changes are to be made. Validate availability of camera(s). Access boss to Review account for pending orders to determine impact. | Value (Medium) | Service Rep | \$52.19 | 4.00 | 1.00 |
| 22 | Release order. | Value (Medium) | Service Rep | \$52.19 | 1.00 | 0.00 |
| 23 | Unit Activity Cost > SUM (LN 19,...22) | | | | | |
| 24 | Answer call and acknowledge customer request! | Value (Small) Change | Service Rep | \$59.53 | 0.50 | 0.00 |
| 25 | Clarify request. PIC/LPIC or both. Determine telephone numbers where changes are to be made. | Value (Small) Change | Service Rep | \$59.53 | 1.00 | 0.50 |
| 26 | Access account in BOSS or Dashboard. BOSS/Dashboard returns the account record to rep. Rep verifies account information and reviews account for pending orders to determine impact. Validate availability of cameras. | Value (Small) Change | Service Rep | \$59.53 | 3.00 | 1.00 |
| 27 | If customer alleges a slam, rep refers to the SCRT team to issue correcting order to switch back & issue adjustments in BOSS as applicable. | Value (Small) Change | Service Rep | \$59.53 | 1.00 | 0.00 |
| 28 | If customer has not been slanned and does not have planning protection on the account, the rep types order in BEASE with the applicable PIC request. | Value (Small) Change | Service Rep | \$59.53 | 2.00 | 1.00 |
| 29 | Recap all elements of the order & offer additional assistance. Note BOSS account: issued order to change PIC/LPIC from/to, due date & order number. Release order to SORQ. | Value (Small) Change | Service Rep | \$59.53 | 3.00 | 2.00 |
| 30 | Unit Activity Cost > SUM (LN 24,...29) | | | | | |
| | | | | | | \$4.41 |
| | | | | | | \$9.36 |

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| Bill of Activity Costs | | | | | | | |
|---|---------------|--------------|----------|----------|-------|-------------|--------------|
| | | | | | | | |
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) |
| Process PIC Change for "GEM" Non-Centrex customer | | | | | | | |
| 31 Answer call or receive Web/MOM & acknowledge request from biz customer thru ACD lines to change PIC/PIC | Signature/GEM | Service Rep | \$56.07 | 2.00 | 1.00 | 100.00% | \$1.87 |
| 32 Clarify customer request & phone numbers involved, confirm PIC/LPIC activity | Signature/GEM | Service Rep | \$56.07 | 5.00 | 2.00 | 100.00% | \$4.67 |
| 33 Confirm slammimg protected or not and get permission to proceed if protected. Continue to permission granted, stop order process if denied | Signature/GEM | Service Rep | \$56.07 | 5.00 | 1.00 | 100.00% | \$4.67 |
| 34 If customer indicates slammimg, advise of rights, issue correcting order and request adjustment. Forward for SCRT for follow up. | Signature/GEM | Service Rep | \$56.07 | 2.00 | 1.00 | 100.00% | \$1.87 |
| 35 Access account in BOSS | Signature/GEM | Service Rep | \$56.07 | 2.00 | 1.00 | 100.00% | \$1.87 |
| 36 Issue change orders thru BEASE or send Complex orders to be typed by SOW | Signature/GEM | Service Rep | \$56.07 | 4.00 | 1.00 | 100.00% | \$3.74 |
| 37 Review order with customer and note BOSS of order number, due date, old & new PIC/LPIC | Signature/GEM | Service Rep | \$56.07 | 10.00 | 1.00 | 100.00% | \$9.35 |
| 38 Send confirmation letter to customer | Signature/GEM | Service Rep | \$56.07 | 5.00 | 1.00 | 100.00% | \$4.67 |
| 39 Follow up for service order completion and posting of new PIC/LPIC to customer records | Signature/GEM | Service Rep | \$56.07 | 5.00 | 1.00 | 100.00% | \$4.67 |
| 40 Unit Activity Cost > SUM (LN 31.....39) | | | | | | | \$32.94 |
| Provide PIC Change for "Signature Accounts" Non-Centrex customer | | | | | | | |
| 41 Answer call or receive Web/MOM & acknowledge request from biz customer thru ACD lines to change PIC/LPIC | Signature/GEM | Service Rep | \$56.07 | 2.00 | 1.00 | 100.00% | \$1.87 |
| 42 Clarify customer request & phone numbers involved, confirm PIC/LPIC or both. Confirm carrier availability and coding. Check for pending order activity | Signature/GEM | Service Rep | \$56.07 | 5.00 | 2.00 | 100.00% | \$4.67 |
| 43 If customer indicates slammimg, advise of rights, issue correcting order and request adjustment. Forward for SCRT for follow up. | Signature/GEM | Service Rep | \$56.07 | 2.00 | 1.00 | 100.00% | \$1.87 |
| 44 Access account in BOSS. | Signature/GEM | Service Rep | \$56.07 | 2.00 | 1.00 | 100.00% | \$1.87 |
| 45 Issue change orders thru BEASE or send Complex orders to be typed by SOW | Signature/GEM | Service Rep | \$56.07 | 4.00 | 1.00 | 100.00% | \$3.74 |
| 46 Review order with customer and note BOSS of order number, due date, old & new PIC/LPIC | Signature/GEM | Service Rep | \$56.07 | 10.00 | 1.00 | 100.00% | \$9.35 |
| 47 Send confirmation letter to customer | Signature/GEM | Service Rep | \$56.07 | 5.00 | 1.00 | 100.00% | \$4.67 |
| 48 Follow up for service order completion and posting of new PIC/LPIC to customer records | Signature/GEM | Service Rep | \$56.07 | 5.00 | 1.00 | 100.00% | \$4.67 |
| 49 Unit Activity Cost > SUM (LN 41.....48) | | | | | | | \$28.27 |
| Provide Customer Account Record Exchange (CARE) support - All PIC and/or LPIC Changes | | | | | | | |
| 50 SBC - Southwest CARE Support | CARE | Area Manager | \$73.25 | 104.00 | Hours | \$7,617.63 | |
| 51 SBC - Southwest CARE Support | CARE | Manager | \$178.06 | 208.00 | Hours | \$16,238.08 | |
| 52 ASCIPOCC Call Group | IPOC | Service Rep | \$58.07 | 15.99 | Hours | \$905.96 | |
| 53 ASCIPOCC Collections | IPOC | Service Rep | \$58.07 | 416.00 | Hours | \$24,157.97 | |
| 54 Unit Activity Cost > SUM (LN 50.....53) | | | | | | | \$44,917.24 |
| 55 ASCIPOCC Error Corrections | IPOC | Service Rep | \$58.07 | 118.98 | Hours | \$6,909.18 | |
| 56 Unit Activity Cost > SUM (LN 55.....55) | | | | | | | \$6,909.18 |
| Provide Slammering Administration support - All PIC and/or LPIC Changes | | | | | | | |
| 57 Consumer Support | SCRT | Service Rep | \$58.07 | 865.28 | Hours | \$50,248.57 | |
| 58 Business Support | SCRT | Service Rep | \$57.54 | 1,445.93 | Hours | \$83,365.84 | |
| 59 Unit Activity Cost > SUM (LN 57.....58) | | | | | | | \$133,614.41 |

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| Bill of Resource Costs | | | | | | |
|------------------------|-----------|------|----------------------|----------------------|-------------------------|--|
| (A) | (B) | (C) | (D) | (E) | (F) | (G) |
| Line | State (1) | JFC | Work Group | Job Title | Labor Cost per Hour (1) | Factor to restate labor rate to current and adjust for inflation (2) |
| 1 | TX | 23XX | IPOC | Service Rep | \$54.19 | 1.0716 |
| 2 | TX | 23XX | SCRT | Service Rep | \$54.19 | 1.0716 |
| 3 | IN | 23XX | CARE | Area Manager | \$68.35 | 1.0716 |
| 4 | OH | 23XX | CARE | Manager | \$72.84 | 1.0716 |
| 5 | AR | 23XX | SCRT | Service Rep | \$53.69 | 1.0716 |
| 6 | OK | 23XX | Value (Medium) | Service Rep | \$48.70 | 1.0716 |
| 7 | TX | 23XX | Value (Small) Change | Service Rep | \$54.19 | 1.0716 |
| 8 | KS | 23XX | Value (Small) Change | Service Rep | \$57.52 | 1.0716 |
| 9 | Weighted | 23XX | Value (Small) Change | Service Rep | | |
| 10 | TX | 23XX | Global | Senior Records Clerk | \$46.49 | 1.0716 |
| 11 | TX | 23XX | Global Change | Service Rep | \$54.19 | 1.0716 |
| 12 | MO | 23XX | Global Change | Service Rep | \$49.18 | 1.0716 |
| 13 | Weighted | 23XX | Global Change | Service Rep | | |
| 14 | TX | 23XX | Consumer | Service Rep | \$54.19 | 1.0716 |
| 15 | MO | 23XX | Consumer | Service Rep | \$49.18 | 1.0716 |
| 16 | OK | 23XX | Consumer | Service Rep | \$48.70 | 1.0716 |
| 17 | KS | 23XX | Consumer | Service Rep | \$57.52 | 1.0716 |
| 18 | AR | 23XX | Consumer | Service Rep | \$53.69 | 1.0716 |
| 19 | Weighted | 23XX | Consumer | Service Rep | | |
| 20 | TX | 23XX | Signature/GEM | Service Rep | \$54.19 | 1.0716 |
| 21 | MO | 23XX | Signature/GEM | Service Rep | \$49.18 | 1.0716 |
| 22 | OK | 23XX | Signature/GEM | Service Rep | \$48.70 | 1.0716 |
| 23 | KS | 23XX | Signature/GEM | Service Rep | \$57.52 | 1.0716 |
| 24 | AR | 23XX | Signature/GEM | Service Rep | \$53.69 | 1.0716 |
| 25 | Weighted | 23XX | Signature/GEM | Service Rep | | |

NOTES:

(1) Source: "Input" Tab

(2) Restate to Current and Inflation Calculations.

| Labor Rate Base Year | Year | Value |
|--|------|---------|
| 2004 Wage Increase | 2003 | |
| 2005 Wage Increase | 2004 | 2.0% |
| 2006 Wage Increase | 2005 | 2.5% |
| Inflation to midpoint based on union contract increases: | 2006 | 2.5% |
| | 2007 | 1.0716 |
| | | \$56.07 |

(3) All "weighted" groups above are located in various states, but can perform work for Arkansas customers. The weightings were based on the number of employees located in each state doing the work function.

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| ACTIVITY DRIVERS | | Drivers | | | | |
|------------------|--|---------------------------|-----------------------|--------------------------------|--|--|
| (A) | (B) | (C) | (D) | (E) | | |
| | | Percent Orders by Channel | Percent Manual Orders | Percent Orders X Manual Orders | | |
| 1 | % orders worked by Consumer Customer Care center | 89.4% | 100.0% | 89.4% | | |
| 2 | % orders worked by Global Markets center | 1.1% | 100.0% | 1.1% | | |
| 3 | % orders worked by Signature Accounts center for non-centrex lines | 0.9% | 100.0% | 0.9% | | |
| 4 | % orders worked by Value Medium center | 1.8% | 100.0% | 1.8% | | |
| 5 | % orders worked by Value Small center | 5.2% | 100.0% | 5.2% | | |
| 6 | % orders worked by GEM Accounts center for non-centrex lines | 0.8% | 100.0% | 0.8% | | |

| (A) | (B) | PIC Changes per Order | Value (1/C) |
|------|---|-----------------------|-------------|
| Line | Driver Description | Source: Input | |
| 7 | Consumer - Lines per PIC/LPIC - Initial Line | 1.96 | 0.51 |
| 8 | Consumer - Lines per PIC/LPIC - Additional Line | 1.96 | 0.51 |
| 9 | Global - Lines per PIC/LPICs - Initial Line | 1.96 | 0.51 |
| 10 | Global - Lines per PIC/LPIC - Additional Line | 1.96 | 0.51 |
| 11 | Value (Medium) - Lines per PIC/LPIC - Initial Line | 1.92 | 0.52 |
| 12 | Value (Medium) - Lines per PIC/LPIC - Additional Line | 1.92 | 0.52 |
| 13 | Value (Small) - Lines per PIC/LPIC - Initial Line | 1.92 | 0.52 |
| 14 | Value (Small) - Lines per PIC/LPIC - Additional Line | 1.92 | 0.52 |
| 15 | GEM - Lines per PIC/LPIC - Initial Line | 1.96 | 0.51 |
| 16 | GEM - Lines per PIC/LPIC - Additional Line | 1.96 | 0.51 |
| 17 | Signature - Lines per PIC/LPIC - Initial Line | 1.93 | 0.52 |
| 18 | Signature - Lines per PIC/LPIC - Additional Line | 1.93 | 0.52 |

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| Drivers | | | | | |
|-------------------------|---|--------------------------------------|---------------------------------|--|--------------------------------------|
| (A) | (B) | (C) | (D) | | |
| Line | Driver Description | Source: Input | (F/C) | | |
| | | Quantity Total | | | |
| | | PIC/LPIC Changes | Value | | |
| 19 | 1/Total PIC/LPIC Transactions | 332,369 | 0.00000301 | | |
| 20 | 1/Total Manual PIC/LPIC Transactions | 252,953 | 0.00000395 | | |
| 21 | 1/Total Mechanized PIC/LPIC Transactions | 79,416 | 0.0000012592 | | |
| RESOURCE DRIVERS | | | | | |
| (A) | (B) | (C) | (D) | (E) | (F) |
| Line | Activities / Resources | Number of Employees Source: Input | Resource Time (annual hours) | % Time Dedicated to Arkansas PIC/LPIC Support | Driver Value (hours) (F=C*D*E) |
| | <i>Provide Customer Account Record Exchange (CARE) support</i> | | | | |
| 22 | Area Manager - IN - Provide Southwest CARE Support | 1 | 2080 | 5.00% | 104.00 |
| 23 | Manager - OH - Provide Southwest CARE Support | 1 | 2080 | 10.00% | 208.00 |
| 24 | Service Representative - TX - ASCII/POC Call Group Support | 9 | 2080 | 0.08% | 15.59 |
| 25 | Service Representative - TX - ASCII/POC Error Corrections Support | 1 | 2080 | 5.72% | 118.98 |
| 26 | Service Representative - TX - ASCII/POC Collections Support | 1 | 2080 | 20.00% | 416.00 |
| | <i>Provide Slamming Administration support</i> | | | | |
| 27 | Service Representative - AR - SCRT Business | 27 | 2080 | 2.58% | 1,448.93 |
| 28 | Service Representative - TX - SCRT Consumer | 13 | 2080 | 3.20% | 865.28 |

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| Glossary | |
|-----------------------|--|
| ASC | Access Service Center Location where service representatives are employed. The ASC was previously called the ICSC (Interexchange Carrier Service Center). |
| BEASE | Business Easy Access Sales Environment A GUI application which interacts with SORD, Premise and other systems to format simple orders in SORD. |
| BOSS | Billing and Order Support System Allows on-line access to all detailed and up-to-date account information needed to carry out service center operations associated with customer account inquiries, the processing of adjustments and the performance of treatment activities. |
| CARE | Customer Account Record Exchange Application that interfaces with the interexchange carriers to provide them with tariffed FCC mandated billing information and optional ALDIS products. |
| CCP | Customer Choice Protection Formal name of Add Protection |
| Consumer EASE | Separate Business Channel for the Consumer channel. |
| EASE | Application used to negotiate orders. |
| GEM | Separate Business Channel for Government/Educational/Municipal customers. |
| ILEC | Incumbent Local Exchange Carrier The company that provides intralATA telecommunications within a franchised territory. |
| IVR | Interactive Voice Response Provides inquiry and update directly to the customer without service representative intervention. Many applications available including Spanish, Business and Residence functions. Routes appropriately if service representative support is required. |
| LPIC | Local Presubscription Interexchange Carrier The Intralata carrier selected by the customer. |
| PIC | Presubscription Interexchange Carrier The Intralata carrier selected by the customer. |
| SCRT | Slamming Complaint Resolution Team This group resolves all customer slamming complaints. |
| Signature | Separate Business Channel for large business customers. |
| SORD | SORD is a mechanized, online service order processing system for SBC. It provides a means to create, store, edit, maintain and distribute requests to other involved work groups establishing, disconnecting or changing a customer's services and account. |
| Value (Medium) | Separate Business Channel for Medium sized business customers. |
| Value (Small) | Separate Business Channel for Small sized business customers. |

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| Line | Input | Input | Input | Value | Source |
|------|---|-------|-------|---|--|
| | Completion Date | | | August 2005 | |
| | State | | | SBC - Arkansas Study | |
| | Cost Study Title | | | Presubscribed Interexchange Carrier (PIC) | |
| | Cost Study Subtitle 1 | | | Change Charge | |
| | Cost Study Subtitle 2 | | | Nonrecurring Cost Study | |
| | Study Period - Install | | | 2005-2008 | |
| | Midpoint of Install Period | | | 2006 | |
| 1 | TX - 23XX - Service Representative - 2003 | | | \$54.19 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 2 | TX - 23XX - Manager - 2003 | | | \$61.46 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 3 | IN - 23XX - Area Manager - 2003 | | | \$68.35 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 4 | OH - 23XX - Manager - 2003 | | | \$72.84 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 5 | AR - 23XX - Service Representative - 2003 | | | \$53.69 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 6 | MO - 23XX - Service Representative - 2003 | | | \$49.18 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 7 | OK - 23XX - Service Representative - 2003 | | | \$48.70 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 8 | KS - 23XX - Service Representative - 2003 | | | \$57.52 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 9 | TX - 23XX - Senior Records Clerk - 2003 | | | \$46.49 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 10 | MO - 23XX - Senior Records Clerk - 2003 | | | \$48.25 | SBC Cost Analysis Factors & Labor Rates Group, issued 7/04 |
| 11 | 2004 Wage Increase | | | 2.0% | 2004 Union Labor Contract |
| 12 | 2005 Wage Increase | | | 2.5% | 2004 Union Labor Contract |
| 13 | 2006 Wage Increase | | | 2.5% | 2004 Union Labor Contract |
| | Percent of Service Orders by Channel | | | | |
| 14 | Consumer Customer Care | | | 89.41% | MOKA PIC LPIC Change Ratios |
| 15 | Global Markets | | | 1.10% | MOKA PIC LPIC Change Ratios |
| 16 | Signature Accounts - Non-centrex | | | 0.91% | MOKA PIC LPIC Change Ratios |
| 17 | Value Medium Accounts | | | 1.84% | MOKA PIC LPIC Change Ratios |
| 18 | Value Small Accounts | | | 5.24% | MOKA PIC LPIC Change Ratios |
| 19 | Government/Education/Municipal (GEM) - Non-centrex | | | 0.80% | MOKA PIC LPIC Change Ratios |
| 20 | Manual PIC/LPIC Transactions | | | 252,953 | Area Manager - Quality/M&P/Process |
| 21 | Mechanized PIC/LPIC Transactions | | | 79,416 | Area Manager - Quality/M&P/Process |
| 22 | Total PIC/LPIC Change Transactions | | | 332,369 | Total Manual and Mechanized Transactions |
| 23 | Percent Manual Transactions | | | 100.00% | Product Management |
| 24 | Initial PIC/LPIC Changes (All Channels) - Southwest Region | | | 8,634,024 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 25 | Additional PIC/LPIC Changes (All Channels) - Southwest Region | | | 2,431,954 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 26 | Total Initial / Additional PIC/LPIC Changes (All Channels) - Southwest Region | | | 11,065,978 | Line 24 + Line 25 |
| 27 | % Initial PIC/LPIC Changes | | | 78% | (Line 24 / Line 26) |
| 28 | % Additional PIC/LPIC Changes | | | 22% | (Line 25 / Line 26) |
| 29 | PICs/LPICs per Line by Business Channel | | | 1.96 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| | Consumer - PICs/LPICs per Initial Line | | | | |

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| Line | Input | Value | Source |
|------|---|-------|---|
| 30 | Consumer - PICs/LPICs per Additional Line | 1.96 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 31 | Global - PICs/LPICs per Initial Line | 1.95 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 32 | Global - PICs/LPICs per Additional Line | 1.95 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 33 | Value (Medium) - PICs/LPICs per Initial Line | 1.92 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 34 | Value (Medium) - PICs/LPICs per Additional Line | 1.92 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 35 | Value (Small) - PICs/LPICs per Initial Line | 1.92 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 36 | Value (Small) - PICs/LPICs per Additional Line | 1.96 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 37 | GEM - PICs/LPICs per Initial Line | 1.96 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 38 | GEM - PICs/LPICs per Additional Line | 1.93 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 39 | Signature - PICs/LPICs per Initial Line | 1.93 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 40 | Signature - PICs/LPICs per Additional Line | 0.37 | Based on data from Assoc. Dir. - Ad hoc Reporting |
| 41 | Weighted Average PIC/LPIC Changes per Service Order | | |

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| Line | Input | Input | Input | Value | Value | Value | Source |
|---|---|-------|-------|----------|-------|-------|--|
| CARE Labor Support | | | | | | | |
| 42 | Provide Service Order Computer Cost, per PIC Change | | | \$0.9800 | | | IT SO Billed Cost Study (July 2004) 13 state average |
| 43 | Provide PIC IT Cost, per PIC Change | | | \$0.4600 | | | PIC IT Processing Costs_2003_R2.xls (13 state average) |
| 44 | Provide IT Implementation Cost, per PIC Change | | | \$0.034 | | | SBC Regional IT Implementation Costs |
| 45 | Overhead Factor | | | 32.17% | | | SBC ARMS Overhead Factor PICS 7-25-04 |
| IPOC Labor Support | | | | | | | |
| 46 | % Dedicated to Support SBC Arkansas - Area Manager CARE Support | | | 5.00% | | | Area Manager - Quality M&P Process |
| 47 | % Dedicated to Support SBC Arkansas - Manager CARE Support | | | 10.00% | | | Area Manager - Quality M&P Process |
| 48 | Headcount supporting SBC Arkansas - Area Manager CARE Support | | | 1 | | | Area Manager - Quality M&P Process |
| 49 | Headcount supporting SBC Arkansas - Manager CARE Support | | | 1 | | | Area Manager - Quality M&P Process |
| Slamming Administration (SCRT) Labor Support | | | | | | | |
| 50 | % Dedicated to Support SBC Arkansas - Service Rep Call Group Support | | | 0.08% | | | Area Manager - Access Service Center |
| 51 | % Dedicated to Support SBC Arkansas - Service Rep Error Corrections Support | | | 5.72% | | | Area Manager - Access Service Center |
| 52 | Headcount supporting SBC Arkansas - Service Rep Call Group Support | | | 20.00% | | | Area Manager - Access Service Center |
| 53 | Headcount supporting SBC Arkansas - Service Rep Error Corrections Support | | | 9 | | | Area Manager - Access Service Center |
| 54 | Headcount supporting SBC Arkansas - Service Rep Collections Support | | | 1 | | | Area Manager - Access Service Center |
| 55 | % Dedicated to Support SBC Arkansas Business - Service Representative | | | 1 | | | Area Manager - Access Service Center |
| 56 | % Dedicated to Support SBC Arkansas Consumer - Service Representative | | | 1 | | | Area Manager - Access Service Center |
| 57 | Headcount supporting SBC Arkansas Business - Service Representative | | | 2.58% | | | Service Representative |
| 58 | Headcount supporting SBC Arkansas Consumer - Service Representative | | | 3.20% | | | Manager - Consumer Support |
| | | | | 27 | | | Service Representative |
| | | | | 13 | | | Manager - Consumer Support |

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| Line | Input | Input | Value | Source |
|---|----------|---------------------|--------|-------------|
| Labor Rate Weightings | | | | |
| Consumer - Service Reps (1) | | | | |
| 59 | Texas | Number of Employees | 1,092 | Weighting % |
| 60 | Missouri | | 511 | 55.12% |
| 61 | Oklahoma | | 227 | 25.80% |
| 62 | Kansas | | 121 | 11.46% |
| 63 | Arkansas | | 30 | 6.11% |
| 64 | Total | | 1,981 | 1.51% |
| | | | | 100.00% |
| Signature/GEM - Service Reps (2) | | | | |
| 65 | Texas | 160 | 56.14% | |
| 66 | Missouri | 57 | 20.00% | |
| 67 | Oklahoma | 44 | 15.44% | |
| 68 | Kansas | 2 | 0.70% | |
| 69 | Arkansas | 22 | 7.72% | |
| 70 | Total | 285 | | 100.00% |
| | | | | |
| Global - Service Reps (3) | | | | |
| 71 | Texas | 131 | 90.34% | |
| 72 | Missouri | 14 | 9.66% | |
| 73 | Total | 145 | | 100.00% |
| | | | | |
| Value (Small) - Service Reps (4) | | | | |
| 74 | Texas | 91 | 59.09% | |
| 75 | Kansas | 63 | 40.91% | |
| 76 | Total | 154 | | 100.00% |
| | | | | |

(1) Headcount as of June 30, 2004

(2) Headcount as of June 30, 2004

(3) Headcount as of June 30, 2004

(4) Headcount as of June 30, 2004

Manager - CSRC Staff

Manager - Business Sales Admin

Area Manager - Operations Support

Manager - Business Sales